

Day Break

Monday, 11 November 2019

Economy

Pakistan IMF Program

IMF first review concludes successfully; Pakistan on track towards economic stability

- Recent review by IMF under the USD 6.0bn Extended Fund Facility (EFF) concluded successfully, with press release citing all of End-September 2019 criteria were met with comfortable margins
- The IMF mission to Pakistan, praised government efforts on program implementation while achieving major economic stability measures. Foremost of which is the country's external position, followed with increase in SBP reserves and more than expected and tax collections targets
- In addition, IMF revised down Pakistan's inflation outlook from 13% previously to 11.8%, whereas other key economic indicator targets remain unchanged. IMF also highlighted additional work required on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) before Mar-20.

Satisfactory conclusion of EFF first review to pave way for USD 450mn

Recent review by International Monetary Fund (IMF) under the USD 6.0bn Extended Fund Facility (EFF) concluded successfully, with press release citing all of End-September 2019 criteria were met with comfortable margins and progress continues towards meeting all structural benchmarks. Hence, successful completion of first review will allow for disbursement USD 450mn or SDR 328mn.

"The Pakistani authorities and IMF staff have reached a staff-level agreement on policies and reforms needed to complete the first review under the EFF. The agreement is subject to approval by IMF management and the Executive Board of Directors. Completion of the review will enable disbursement of SDR 328 million (or around US\$ 450 million) and will help unlock significant funding from bilateral and multilateral partners. (IMF Press Release) November 2019.

Exhibit: Pakistan Schedule of reviews and disbursement

Date	Amt. USDmn (est.)	Amt. SDRmn	Conditions
3-Jul-19	982	716	Approval
6-Dec-19	450	328	First Review September - End
6-Mar-20	450	328	Second Review December - End
5-Jun-20	450	328	Third Review March - End
4-Sep-20	450	328	Fourth Review June - End
5-Mar-21	768	560	Fifth Review December - End
3-Sep-21	768	560	Sixth Review June - End
4-Mar-22	768	560	Seventh Review December - End
2-Sep-22	768	560	Eighth Review June - End
Total	5855	4268	

Source: IMF, IGI Research (*USD 1.37/SDR)

Economic progress praised...

The IMF mission to Pakistan, praised government efforts on program implementation while achieving major economic stability measures. Foremost is country's external position whereby current account (C/a) deficit has shrunk significantly by 63% y/y to USD 1.5bn by 1q Fy20 compared to USD 4.3bn last year same period. Similarly increase in SBP reserves from USD 7.8bn in Jul-19 to current USD 8.3bn (Nov-19) is more than expected and tax collections targets remain adequate despite sharp cut down in imports and subsequent import based tax. In addition, IMF revised down Pakistan's inflation outlook from 13%

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previously to 11.8%, whereas other key economic indicator targets remain unchanged.

...however additional work required

In addition to economic progress, IMF also highlighted additional work required on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) before Mar-20. To recall, this is in line with FATF (Financial Action Task Force) evaluation report issued earlier in Oct-19, whereby it maintained Pakistan's status under the grey list category citing technical deficiencies in relation to AML/CFT still left unaddressed and is due for a review again in Feb-20.

Exhibit: Pakistan: Structural Conditionality under IMF EFF Program 2019

Prior Actions for Program Approval	
1	Move to a flexible, market-determined exchange rate by <ol style="list-style-type: none"> i) announcing that the SBP moves to a flexible market-determined exchange rate with a focus on price stability and interventions are limited to safeguarding financial stability and preventing disorderly market conditions (DMC) and ii) tightening the monetary stance by 150 bps.
2	Reach formal public agreement between the federal and provincial governments on the fiscal targets consistent with the program.
3	Adopt by parliament the FY 2020 budget consistent with program targets.
4	Adopt a package of measures in the energy sector: <ol style="list-style-type: none"> i) Implement a quarterly automatic tariff adjustment in the electricity sector by about 10 percent to generate Rs 150 billion in additional revenues and ii) notify by government the FY 2020 gas tariff adjustment as proposed by the regulator to become effective on July 1st, 2019.

Structural Benchmarks		Date	
1	Commit to not grant further tax amnesties	Continuous	Fiscal
2	Issue licenses for the track-and-trace system for excises on cigarettes	Sep-19	Fiscal
3	Notify the FY 2020 electricity tariff schedule as determined by the regulator	Sep-19	State-owned Enterprises
4	Prepare a comprehensive circular debt reduction plan in collaboration with international partners	Sep-19	State-owned Enterprises
5	Adopt measures to strengthen the effectiveness of the AML/CFT framework to support the country's efforts to exit the Financial Action Task Force list of jurisdictions with serious deficiencies	Oct-19	Monetary / Financial
6	Finalize BISP's banking contracts and launch financial inclusion strategy for women	Oct-19	Social Protection and Gender
7	Submit to parliament, in consultation with IMF staff, amendments to the State Bank of Pakistan Act to address all recommendations of the new 2019 Safeguards Assessment Report and the 2016 Technical Assistance Report on Central Bank Law Reform	Dec-19	Monetary / Financial
8	Submit to parliament amendments to the NEPRA Act to <ol style="list-style-type: none"> (i) ensure full automaticity of the quarterly tariff adjustments and (ii) eliminate the gap between the regular annual tariff determination and notification by the government 	Dec-19	State-owned Enterprises
9	Conduct and publish new audits by reputable international auditors of Pakistan International Airlines and Pakistan Steel Mills	Dec-19	State-owned Enterprises
10	Update the benefit structure of Waseela-e-Taleem (WeT) to narrow the educational gender gap	Dec-19	Social Protection and Gender
11	Finalize the update of the BISP beneficiaries' database (National Socio-Economic Registry)	Jun-20	Social Protection and Gender
12	Conduct a triage of all SOEs, dividing them into companies to <ol style="list-style-type: none"> (i) maintain under state management (ii) privatize; or (iii) liquidate 	Sep-20	State-owned Enterprises
13	Submit to Parliament a new State-Owned Enterprise law to improve governance and transparency in line with IMF recommendations	Sep-20	State-owned Enterprises

Outlook

Looking ahead, two of the key upcoming benchmark reviews due in Dec-19 include a) SBP Act – which will be amended to strengthen SBP's autonomy, governance and mandate; and b) Amendments to the NEPRA Act – which will be submitted to parliament and holds automatic tariff adjustments, which could turn challenging for the government. Nevertheless, from a market perspective, we see Pakistan's successful completion of IMF 1st review as a positive. More importantly, IMF inflation revision from 13% earlier to 11.8% along with

improvement in external accounts, further corroborates our stance of reversal of monetary tightening cycle.

Exhibit: IMF key Economic Projections for Pakistan

	2015	2016	2017	2018	2019	2020
Real GDP	4.1	4.6	5.2	5.5	3.3	2.4
Consumer Price (avg.)	4.5	2.9	4.1	3.9	7.3	13.0
Consumer Price (end)	3.2	3.2	3.9	5.2	8.4	11.8
Fiscal Balance	(5.4)	(4.6)	(5.8)	(6.5)	(7.0)	(7.3)
Primary Fiscal Balance	(0.7)	(0.3)	(1.6)	(2.2)	(1.8)	(0.6)
Govt. Debt / GDP	63.3	67.6	67.0	71.7	74.9	76.9
External Debt / GDP	18.9	20.8	20.5	24.3	26.5	32.0
Broad money Growth (M2)	13.2	13.7	13.7	9.7	10.8	12.1
Private Sector Credit growth	5.9	11.1	16.6	14.9	17.1	13.3
C/a Balance / GDP	(1.0)	(1.7)	(4.1)	(6.3)	(4.6)	(2.6)

Exhibit: Pakistan: Quantitative Performance Criteria and Indicative Targets for FY 2019/20 (PKRtn)	FY 18/19		FY 19/20			
	Dec Actual	Jun Proj	Sept Proj	Dec Proj	Mar Proj	Jun Proj
Performance Criteria						
Floor on net international reserves of the SBP USDbn	(11.9)	(17.7)	(18.5)	(16.3)	(12.8)	(10.8)
Ceiling on net domestic assets of the SBP	7.3	8.9	8.9	8.8	8.4	8.7
Ceiling on SBP's stock of net foreign currency swaps/forward position USDbn	7.5	8.1	8.1	8.1	8.1	7.6
Ceiling on general government primary budget deficit	0.2	0.7	0.1	0.1	0.2	0.3
Ceiling on net government budgetary borrowing from the SBP	4.7	7.8	7.8	7.8	7.8	7.2
Ceiling on the amount of government guarantees	1.3	1.6	1.6	1.6	1.6	1.6
Indicative Targets						
Cumulative floor on Targeted Cash Transfers Spending (BISP)	0.03	0.10	0.05	0.09	0.13	0.18
Cumulative floor on general government budgetary health and education spending	-	-	0.35	0.70	1.22	1.74
Floor on net tax revenues collected by the FBR	1.80	4.15	1.07	2.37	3.76	5.50
Ceiling on net accumulation of tax refund arrears	0.09	0.09	(0.08)	(0.06)	(0.06)	(0.06)
Ceiling on power sector payment arrears	1.42	1.69	0.02	0.04	0.06	0.08

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